

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016
AND INDEPENDENT AUDITORS' REPORT

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

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INDEPENDENT AUDITORS' REPORT

July 28, 2016

To the shareholders of Welspun Middle East Pipes Coating Company:
(A limited liability company)

Scope of audit

We have audited the accompanying balance sheet of Welspun Middle East Pipes Coating Company (the "Company") as of March 31, 2016 and the statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 20 which form an integral part of these financial statements. These financial statements, which were prepared by the Company in accordance with Article 175 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of March 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

Emphasis of matter

We draw attention to Note 1 to the accompanying financial statements. The Company has incurred a net loss of Saudi Riyals 12.1 million for the year ended March 31, 2016 and has accumulated deficit of Saudi Riyals 36.8 million as of that date, which has exceeded 50% of its share capital. Also, the Company's current liabilities exceeded its current assets by Saudi Riyals 22.9 million as of March 31, 2016. These conditions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern depends upon its ability to obtain financial support from its shareholders. The Company's shareholders, under the requirements of Article 180 of the Regulations for Companies, have resolved to continue the Company's operations and to provide adequate financial support to enable the Company to meet its obligations as they become due and to continue as a going concern. Accordingly, the accompanying financial statements have been prepared under the going concern basis. However, such resolution has not yet been published in the official gazette as of the date of this report.

PricewaterhouseCoopers

By: 

Ali H. Al Basri
License Number 409

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

		As at March 31,	
	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4	5,675,538	1,753,763
Accounts receivable	5	18,243,524	5,237,528
Inventories	6	25,969,740	14,452,580
Prepayments and other receivable	7	1,665,169	983,493
	1	<u>51,553,971</u>	<u>22,427,364</u>
Non-current assets			
Property, plant and equipment	8	113,014,937	120,813,528
Deferred charges	9	1,425,825	1,806,045
		<u>114,440,762</u>	<u>122,619,573</u>
Total assets		<u>165,994,733</u>	<u>145,046,937</u>
Liabilities			
Current liabilities			
Current maturity of long-term borrowings	10	6,566,260	6,566,260
Accounts payable	11	39,034,715	6,481,775
Accrued and other liabilities	12	28,817,306	21,984,134
Zakat and income tax payable	13	-	5,474
	1	<u>74,418,281</u>	<u>35,037,643</u>
Non-current liabilities			
Long-term borrowings	10	14,524,120	21,090,380
Long-term loans from shareholders	14	79,036,162	79,036,162
Employee termination benefits	15	1,087,121	822,090
		<u>94,647,403</u>	<u>100,948,632</u>
Total liabilities		<u>169,065,684</u>	<u>135,986,275</u>
Shareholders' (deficiency) equity			
Share capital	16	33,765,625	33,765,625
Accumulated deficit	1	<u>(36,836,576)</u>	<u>(24,704,963)</u>
Total shareholders' (deficiency) equity		<u>(3,070,951)</u>	<u>9,060,662</u>
Total liabilities and shareholders' (deficiency) equity		<u>165,994,733</u>	<u>145,046,937</u>
Commitments	20		

The accompanying notes from 1 to 20 form an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Income statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	<u>Year ended March 31,</u>	
		2016	2015
Revenues	14	72,431,331	60,074,022
Cost of revenues	14	<u>(73,426,172)</u>	<u>(67,025,672)</u>
Gross margin		(994,841)	(6,951,650)
General and administrative expenses	18	<u>(5,681,363)</u>	<u>(4,220,230)</u>
Loss from operations		(6,676,204)	(11,171,880)
Other (expenses) income			
Financial charges	10,14	(5,706,123)	(5,136,792)
Other income, net		<u>245,240</u>	<u>742,093</u>
Net loss for the year		<u>(12,137,087)</u>	<u>(15,566,579)</u>

The accompanying notes from 1 to 20 form an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Cash flows statement
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended March 31,	
		2016	2015
Cash flows from operating activities			
Net loss for the year		(12,137,087)	(15,566,579)
<u>Adjustment for non-cash item</u>			
Depreciation and amortization	8,9	9,097,131	8,594,440
<u>Changes in working capital</u>			
Accounts receivable		(13,005,996)	13,778,543
Inventories		(11,517,160)	(3,323,625)
Prepayments and other receivable		(247,936)	412,681
Accounts payable		32,552,940	1,046,091
Accrued and other liabilities		6,833,172	5,016,972
Employee termination benefits		265,031	246,554
Net cash generated from operating activities		<u>11,840,095</u>	<u>10,205,077</u>
Cash flows from investing activity			
Purchase of property, plant and equipment		<u>(918,320)</u>	<u>(4,648,981)</u>
Cash flows from financing activities			
Repayment of long-term borrowings		(7,000,000)	(6,000,000)
Zakat payments	13	-	(304,420)
Net cash utilized in financing activities		<u>(7,000,000)</u>	<u>(6,304,420)</u>
Net change in cash and cash equivalents		3,921,775	(748,324)
Cash and cash equivalents at beginning of year		<u>1,753,763</u>	<u>2,502,087</u>
Cash and cash equivalents at end of year	4	<u>5,675,538</u>	<u>1,753,763</u>
Supplemental non-cash financial information			
Non-cash financing activity -			
- Zakat and income tax provisions charged to shareholders' equity accounts	13	<u>5,474</u>	<u>227,856</u>

The accompanying notes from 1 to 20 form an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Statement of changes in shareholders' (deficiency) equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Accumulated deficit	Total
April 1, 2015		33,765,625	(24,704,963)	9,060,662
Net loss for the year	1	-	(12,137,087)	(12,137,087)
Zakat and income tax, net	13	-	5,474	5,474
March 31, 2016		33,765,625	(36,836,576)	(3,070,951)
April 1, 2014		33,765,625	(9,366,240)	24,399,385
Net loss for the year		-	(15,566,579)	(15,566,579)
Zakat and income tax, net	13	-	227,856	227,856
March 31, 2015		33,765,625	(24,704,963)	9,060,662

The accompanying notes from 1 to 20 form an integral part of these financial statements.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Welspun Middle East Pipes Coating Company (the "Company") is engaged in providing spiral pipes coating services.

The Company is a limited liability company registered in the Kingdom of Saudi Arabia under Commercial Registration 2050071524 issued in city of Dammam on 22 Rajab 1431 H (July 4, 2010). The Company is licensed under foreign investment license No. 121031119001, issued by the Saudi Arabian General Investment Authority on 22 Rajab 1431 H (July 4, 2010). The registered address of the Company is Industrial City II, Dammam, Kingdom of Saudi Arabia.

The Company has incurred a net loss of Saudi Riyals 12.1 million for the year ended March 31, 2016 and has accumulated deficit of Saudi Riyals 36.8 million as of that date, which has exceeded 50% of its share capital. Also, the Company's current liabilities exceeded its current assets by Saudi Riyals 22.9 million as of March 31, 2016. These conditions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern depends upon its ability to obtain financial support from its shareholders. The Company's shareholders, under the requirements of Article 180 of the Regulations for Companies, have resolved to continue the Company's operations and to provide adequate financial support to enable the Company to meet its obligations as they become due and to continue as a going concern. Accordingly, the accompanying financial statements have been prepared under the going concern basis. However, such resolution has not yet been published in the official gazette as of the date of these financial statements.

The accompanying financial statements were approved by the Company's management on July 28, 2016.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting standards requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

2.3 Foreign currency translations

(a) Reporting currency

These financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates are recognized in the income statement. Net amounts of such foreign exchange gains and losses for 2016 and 2015, respectively, were not significant.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts, if any. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all doubtful debts according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written off are credited to "General and administrative expenses" in the income statement.

2.6 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.7 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation, except construction in progress which is carried at cost. Depreciation is charged to the income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Buildings and land improvements	20
• Plant and machinery	5 - 20
• Furniture, fixture and office equipment	3 - 5
• Vehicles	5

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impaired assets are reviewed for possible reversals of impairment at reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating units in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2.8 Deferred charges

Deferred charges include non-refundable amount paid for obtaining electricity connection and is amortized over a period of five years from the date of obtaining such electricity connection.

2.9 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

2.10 Borrowings

Borrowings are recognized at the proceeds received net of transaction cost incurred, if any. Borrowings are subsequently carried at amortized cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period using effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the income statement.

2.11 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"), the Company is subject to zakat and income taxes. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Deferred income taxes on all major temporary differences between financial income and taxable income are recognized during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry-forward tax losses, if any, are recognized to the extent that it is probable that future taxable income will be available against such carry-forward tax losses. Deferred income taxes are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to the foreign shareholder, if any, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.12 Employee termination benefits

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.13 Revenues

Revenues from services are recognized upon performance of services and transfer of significant risks and rewards of ownership to the customers.

2.14 General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting standards. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

2.15 Operating leases

Rental expense under operating leases is charged to the income statement over the period of the respective lease.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

2.16 Reclassifications

Certain amounts in the comparative 2015 financial statements have been reclassified to conform with the 2016 presentation.

3 Financial instruments and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts and other receivables, long-term borrowings, long-term loans from shareholders, accounts payable and accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously. Risk management is carried out by senior management.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, Euros and United States dollars and management believes that currency risk to the Company is not significant.

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risk arises mainly from its long-term borrowings and long-term loans from shareholders which carry interest at market rates and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Company are not significant.

3.3 Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial assets and liabilities are not exposed to price risk.

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. At March 31, 2016, 89% of accounts receivable was due from one customer (2015: 15% from one customer). Management believes that this concentration of credit risk is mitigated as such receivable are supported by agreements with the customers having an established track record of regular payments.

3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available, as well as obtaining sufficient financial support from the shareholders, to meet the Company's obligations as they become. See Note 1.

3.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial instruments are not materially different from their carrying values.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

4 Cash and cash equivalents

	2016	2015
Cash in hand	1,846	8,769
Cash at bank	5,673,692	1,744,994
	<u>5,675,538</u>	<u>1,753,763</u>

5 Accounts receivable

	Note	2016	2015
Trade		16,303,232	759,976
Retentions		1,614,032	3,228,063
Related parties	14	326,260	1,249,489
		<u>18,243,524</u>	<u>5,237,528</u>

6 Inventories

	2016	2015
Raw materials	4,116,195	6,900,573
Finished products	17,378,558	2,773,332
Work-in-process	435,071	185,696
Parts and consumables, not held for sale	4,039,916	4,592,979
	<u>25,969,740</u>	<u>14,452,580</u>

7 Prepayments and other receivable

	2016	2015
Advances to suppliers	923,327	471,577
Prepaid expenses	260,919	269,039
Advances to employee	179,531	117,042
Other	301,392	125,835
	<u>1,665,169</u>	<u>983,493</u>

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

8 Property, plant and equipment

	April 1, 2015	Additions	Transfers	March 31, 2016
2016				
Cost				
Buildings and land improvements	24,121,730	-	168,875	24,290,605
Plant and machinery	124,156,597	528,067	2,981,111	127,665,775
Furniture, fixture and office equipment	439,117	96,942	-	536,059
Vehicles	125,495	-	-	125,495
Construction in progress	2,937,048	293,311	(3,149,986)	80,373
	<u>151,779,987</u>	<u>918,320</u>	<u>-</u>	<u>152,698,307</u>
Accumulated depreciation				
Buildings and land improvements	(4,662,506)	(1,217,503)	-	(5,880,009)
Plant and machinery	(25,907,630)	(7,384,034)	-	(33,291,664)
Furniture, fixture and office equipment	(345,050)	(90,207)	-	(435,257)
Vehicles	(51,273)	(25,167)	-	(76,440)
	<u>(30,966,459)</u>	<u>(8,716,911)</u>	<u>-</u>	<u>(39,683,370)</u>
	<u>120,813,528</u>			<u>113,014,937</u>
	April 1, 2014	Additions	Transfers	March 31, 2015
2015				
Cost				
Buildings and land improvements	23,661,894	155,117	304,719	24,121,730
Plant and machinery	120,398,184	612,613	3,145,800	124,156,597
Furniture, fixture and office equipment	404,018	32,274	2,825	439,117
Vehicles	125,495	-	-	125,495
Construction in progress	2,541,415	3,848,977	(3,453,344)	2,937,048
	<u>147,131,006</u>	<u>4,648,981</u>	<u>-</u>	<u>151,779,987</u>
Accumulated depreciation				
Buildings and land improvements	(3,474,086)	(1,188,420)	-	(4,662,506)
Plant and machinery	(19,166,062)	(6,741,568)	-	(25,907,630)
Furniture, fixture and office equipment	(234,491)	(110,559)	-	(345,050)
Vehicles	(26,175)	(25,098)	-	(51,273)
	<u>(22,900,814)</u>	<u>(8,065,645)</u>	<u>-</u>	<u>(30,966,459)</u>
	<u>124,230,192</u>			<u>120,813,528</u>

Buildings and plant facilities of the Company have been constructed on a land leased under a renewable operating lease arrangement at nominal annual rent for a term of 20 Hijra years expiring in 2031. Also see Note 10.

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

9 Deferred charges

	2016	2015
April 1	1,806,045	1,901,100
Amortization	<u>(380,220)</u>	<u>(95,055)</u>
March 31	<u>1,425,825</u>	<u>1,806,045</u>

10 Long-term borrowings

	2016	2015
Principal amount	22,500,000	29,500,000
Less: unamortized transaction costs	<u>(1,409,620)</u>	<u>(1,843,360)</u>
	<u>21,090,380</u>	<u>27,656,640</u>

Long-term borrowings are presented as follows:

Current maturity under current liabilities	6,566,260	6,566,260
Long-term borrowings	<u>14,524,120</u>	<u>21,090,380</u>
	<u>21,090,380</u>	<u>27,656,640</u>

Movement in unamortized transaction costs are as follows:

April 1	1,843,360	2,277,100
Less: amortization	<u>(433,740)</u>	<u>(433,740)</u>
March 31	<u>1,409,620</u>	<u>1,843,360</u>

Related to:

Current maturity shown under current liabilities	433,740	433,740
Shown under long-term borrowings	<u>975,880</u>	<u>1,409,620</u>
	<u>1,409,620</u>	<u>1,843,360</u>

This represents loan obtained from Saudi Industrial and Development Fund ("SIDF"). This loan does not bear financial charges and is secured by mortgage on the Company's property, plant and equipment. The loan is repayable in twelve un-equal semi-annual installments which commenced in June 2013. The covenants of the loan agreement require the Company to maintain certain level of financial conditions, place limitation of dividend distribution and on annual capital and rental expenditures.

Maturity profile of long-term borrowings:

Years ending March 31,

	2016	2015
2016	-	7,000,000
2017	7,000,000	7,000,000
2018	7,500,000	7,500,000
2019	<u>8,000,000</u>	<u>8,000,000</u>
	<u>22,500,000</u>	<u>29,500,000</u>

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
Notes to the financial statements for the year ended March 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

11 Accounts payable

	Note	2016	2015
Trade		10,597,902	4,251,676
Related parties	14	<u>28,436,813</u>	<u>2,230,099</u>
		<u>39,034,715</u>	<u>6,481,775</u>

12 Accrued and other liabilities

	Note	2016	2015
Accrued financial charges	14	24,328,253	20,167,486
Accrued expenses		2,824,156	1,778,866
Advances from customers		<u>1,664,897</u>	<u>37,782</u>
		<u>28,817,306</u>	<u>21,984,134</u>

13 Zakat and income tax matters

13.1 Components of zakat base attributable to Saudi shareholders

	2016	2015
Shareholders' equity at beginning of year	4,529,428	12,197,253
Provisions	407,485	261,912
Adjusted net loss for the year	(4,776,470)	(9,205,768)
Borrowings	50,053,259	53,710,657
Property, plant and equipment, as adjusted	<u>(55,582,420)</u>	<u>(56,745,109)</u>
Approximate zakat base	<u>(5,368,718)</u>	218,945

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income attributable to the Saudi shareholders.

13.2 Provision for zakat and income tax

	Zakat	Income tax	Total
April 1, 2015	5,474	-	5,474
Provisions:			
For current year	-	-	-
Adjustments related to prior periods	(5,474)	-	(5,474)
Payments	-	-	-
March 31, 2016	<u>-</u>	<u>-</u>	<u>-</u>
April 1, 2014	537,750	-	537,750
Provisions:			
For current year	5,474	-	5,474
Adjustments related to prior periods	(233,330)	-	(233,330)
Payments	<u>(304,420)</u>	<u>-</u>	<u>(304,420)</u>
March 31, 2015	<u>5,474</u>	<u>-</u>	<u>5,474</u>

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13.3 Temporary differences

	2016	2015
Net loss for the year	(12,137,087)	(15,566,579)
- Depreciation	(1,827,858)	(7,409,043)
- Employee termination benefits	265,031	298,160
- Other	4,145,062	4,153,810
Adjusted net loss for the year	<u>(9,554,852)</u>	<u>(18,523,652)</u>

Income tax is payable at 20 percent of adjusted net income attributable to the foreign shareholder.

Deferred income taxes arising out of such temporary differences were not significant and, accordingly, were not recorded as of March 31, 2016 and 2015. No income tax provision has been recorded for years ended March 31, 2016 and 2015 due to adjusted net loss for such years.

13.4 Status of final certificates

The Company has received zakat and income tax certificates from the DZIT for the years through 2015.

14 Related party matters

The Company has transactions with the shareholders and their affiliates (collectively the "related parties") in normal course of the Company's operations.

14.1 Related party transactions

	2016	2015
Revenues	34,061,878	57,349,891
Purchases	-	308,057
Financial charges charged by related parties	4,160,767	4,153,810
Costs charged to a related party	181,480	231,840

14.2 Related party balances

(i) Due from related parties

	2016	2015
Arabian Pipeline Projects Company, a shareholder	237,708	237,708
Aziz European Pipe Factory	53,474	53,474
Welspun Tabular LLC	18,520	-
Mohawareen Industrial Services	16,558	958,307
	<u>326,260</u>	<u>1,249,489</u>

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(ii) Due to related parties

	2016	2015
Welspun Middle East Pipes Company	26,979,572	706,610
Arabian Pipeline Projects Company, a shareholder	500,000	500,000
Welspun Corp Ltd., a shareholder	373,563	515,784
Welspun Mauritius Holdings Ltd., a shareholder	250,000	250,000
Aziz Company for Contracting and Industrial Investment	180,928	132,128
Arabian Company for Water and Power Development	152,750	111,550
Welspun Tubular LLC.	-	14,027
	28,436,813	2,230,099

(iii) Long-term loans from shareholders

	2016	2015
Arabian Pipeline Projects Company, a shareholder	40,012,719	40,012,719
Welspun Mauritius Holdings Ltd.	39,023,443	39,023,443
	79,036,162	79,036,162

These represent funds obtained from the shareholders and have no specific repayment schedule. The shareholders have confirmed that no repayments of such amounts will be required during financial year 2017 and, accordingly, these amounts are disclosed as non-current liability in the accompanying 2016 balance sheet.

15 Employee termination benefits

	2016	2015
April 1	822,090	575,536
Provisions	271,987	298,160
Payments	(6,956)	(51,606)
March 31	1,087,121	822,090

16 Share capital

The share capital of the Company as of March 31 comprised of 33,765,625 shares stated at Saudi Riyals 1 per share owned as follows:

Shareholder	Country of incorporation	Shareholding percentage	
		2016	2015
Welspun Mauritius Holdings Ltd.	Mauritius	50.01	50.01
Arabian Pipeline Projects Company	Kingdom of Saudi Arabia	45.00	45.00
Mohawareen Industrial Services	Kingdom of Saudi Arabia	4.99	4.99
		100.00	100.00

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17 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year, after adjusting its accumulated deficit, to a statutory reserve until such reserve equals 50% of its share capital. No such transfer was made during 2016 and 2015 due to accumulated deficit for the year, respectively.

18 General and administrative expenses

	2016	2015
Employees related costs	3,083,405	2,908,387
Rent and utilities	1,349,787	291,686
Repair and maintenance	228,518	129,757
Depreciation	278,852	276,226
Other	740,801	614,174
	<u>5,681,363</u>	<u>4,220,230</u>

19 Operating lease

The Company has operating leases for employees' housing and vehicles which generally have terms of one year. Rental expense under such leases amounted to Saudi Riyals 2.4 million (2015: Saudi Riyals 0.3 million). There were no significant future rental commitments at March 31, 2016. Also see Note 8.

20 Commitments

The capital expenditure contracted by the Company but not incurred till March 31, 2016 was Saudi Riyals 0.2 million (2015: Saudi Riyals 0.3 million)